# LOAN PROGRAM

# of the Farmers

# Home Administration

*Prepared as an information aid, in explaining the Farmers Home Administration program to agricultural leaders of other countries*

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Farmers Home Administration

U. S. Department of Agriculture

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# Contents

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## Farmers Home Administration

Many farmers and ranchers throughout the United States, in need of financial assistance which regular credit sources cannot supply, borrow funds from the Farmers Home Administration, an agency in the United States Department of Agriculture. The Act of Congress which established the agency on August 14, 1946, continued and broadened some of the loan services which had been available under predecessor agencies. Additional loan services have since been provided.

### Distinctive Features

The *main objective* of Farmers Home Administration is to enable farm families to become soundly established in successful, well-balanced systems of farming. Loans are made primarily for developing and strengthening family-type farms.

Loans are made *only when credit is not available* from other sources. Farmers Home Administration borrowers agree to obtain their credit from other lenders when they reach or regain a position where they can do so. Every year thousands of farmers graduate to other lenders. In fiscal 1957 more than 44,000 farmers paid their loans in full to Farmers Home Administration. This credit program supplements other sources of credit.

Credit is backed with *advice and technical assistance.* This assistance is provided borrowers on the basis of their individual problems and needs. Assistance is given in analyzing problems and progress, planning a sound farming operation, establishing efficient farm management practices and making a wise use of credit.

*Emergency credit* is provided to farmers who have had losses because of conditions beyond their control, such as drought and floods.

Loans are made with expectation that they will be *repaid out of income* to be received from sound farming operations, rather than on the basis of how much security can be given. However, loans are secured by liens on crops, chattels, and real estate to the extent necessary to protect the Government's interest.

### Agency Organization

The *National Office* in Washington, D. C., under the direction of an Administrator, in accordance with laws passed by Congress, issues procedures, controls budgets and gives technical training to field staffs.

The *National Finance Office*, located in St. Louis, Mo., handles fiscal and accounting services. It keeps records and accounts for all funds disbursed and collected by the agency.

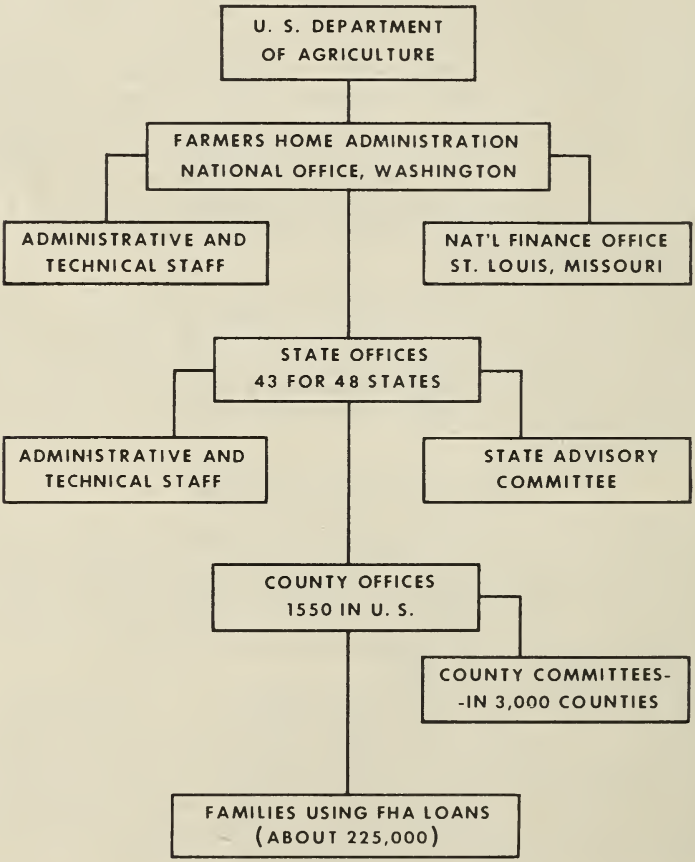
The 43 *State Offices* serve all States, Hawaii, Puerto Rico, and the Virgin Islands. Three State offices serve more than one State. A state director is in charge of each State office. He and his staff direct and train county office staffs, analyze loan programs, control State budgets for loans and approve the larger loans. In each State an advisory committee of leading farmers and business men interested in farmers' problems assists the state director in applying national policies.

Some 1,550 *County Offices* are located throughout the country, usually in county seat towns. Some offices serve several counties. All applications for loans are made at the county offices. The county supervisor who is in charge of each office is a capable agriculturist who helps farm families prepare farm and home plans, approves most loans, gives technical advice to borrowers during on-the-farm visits, services security given for loans, makes collections from borrowers and transmits the collected funds to the national finance office.

*County Farmers Home Administration Committees* consisting of three members are appointed by the state director for each county. Two must be farmers. The third member may be a local business man familiar with local farmers and their needs. These committees determine the eligibility of applicants, certify the value of farms being purchased or improved by Farmers Home Administration loans, and make recommendations concerning certain loan approval and loan servicing actions.

The Farmers Home Administration has approximately 5,500 full-time employees, 200 of whom are in Washington, and 9,300 state and county committeemen who are part-time employees paid on an average of 8 to 10 days a year.

Organization Chart



## The Agency's Place in Agricultural Credit

The Farmers Home Administration provides a relatively small, but an important, part of the agricultural credit American farmers use. The following table shows lenders who had loans outstanding with farmers and the amounts of these loans as of January 1, 1955, and January 1, 1958. Also shown are farm assets for the two dates:

| *Farm Real Estate Mortgage Debts* | *Jan. 1, 1955* | *Percent* | *Jan. 1, 1958* | *Percent* |
|---|---|---|---|---|
| Insurance companies.... | $2,052,000,000 | 24.8 | $2,595,000,000 | 24.7 |
| Federal land banks..... | 1,280,000,000 | 15.4 | 1,897,000,000 | 18.1 |
| Operating banks........ | 1,211,000,000 | 14.6 | 1,400,000,000 | 13.3 |
| Individuals, others...... | 3,459,000,000 | 41.7 | 4,275,000,000 | 40.7 |
| Farmers Home Administration.............. | *287,000,000 | 3.5 | *340,000,000 | 3.2 |
| | 8,289,000,000 | 100.0 | 10,507,000,000 | 100.0 |
| *Non-Real Estate Debts (Excluding CCC Loans)* | | | | |
| Operating banks........ | 2,934,000,000 | 40.1 | $3,600,000,000 | 42.4 |
| Individuals, others...... | 3,300,000,000 | 45.2 | 3,500,000,000 | 41.2 |
| Production Credit Associations............. | 577,000,000 | 7.9 | 886,000,000 | 10.5 |
| Farmers Home Administration.............. | 433,000,000 | 6.0 | 436,000,000 | 5.1 |
| Federal Intermediate Credit Bank......... | 58,000,000 | .8 | 67,000,000 | .8 |
| | 7,302,000,000 | 100.0 | $8,489,000,000 | 100.0 |
| Total farmers' debts......... | 15,591,000,000 | | 18,996,000,000 | |
| Total farm assets. | 166,500,000,000 | | 188,300,000,000 | |

*Does not include loans advanced by private lenders but insured by Farmers Home Administration. As of Jan. 1, 1958, the insured loans oustanding amounted to $167,000,000.

Total loans made and insured by the Farmers Home Administration in fiscal 1957 (year ended June 30, 1957) amounted to more than $356,300,000. About 9½ percent or approximately $34,000,000 of the amount was advanced by other lenders on an insured loan basis. Nearly a quarter million farm families worked their farms with Farmers Home Administration credit during fiscal 1957.

## Main Features of Supervised Credit

Farm management guidance is provided borrowers in:

1. Analyzing farming and credit problems including the adequacy of available resources.
2. Developing long time and annual farm and home plans that provide for a sound system of farming.
3. Making needed adjustments in farming operations and completing farm improvements.
4. Keeping farm and home records of income and expense.
5. Making wise use of income including orderly repayment of debts.
6. Adopting approved farm and home practices.
7. Making yearly analysis of farm and home business as a basis for further improving the farm and home business.

Farmers Home Administration loans are protected by:

1. Making loans only for essential purposes.
2. Controlling expenditure of loan funds.
3. Checking security items carefully.
4. Maintaining accurate and current mortgages.
5. Visiting borrowers' farms to determine progress and assist with problems.
6. Making collections when income is available.
7. Scheduling payments according to borrowers' ability to pay.
8. Assistance of local committees.

# TYPES OF LOANS

## Operating Loans

These loans are used primarily to obtain chattel resources needed to become successfully established in farming. They are made from funds appropriated by Congress. In fiscal 1957 the volume of operating loans totaled approximately $183,300,000. Approximately 75 percent was invested in equipment and livestock.

To be eligible an applicant must:

1. Be unable to obtain adequate credit from other lenders at reasonable terms.
2. Be a citizen of the United States and of legal age.
3. Have good character.
4. Have the necessary experience or training and managerial ability to operate a family-type farm.
5. Own or have available under satisfactory tenure arrangements adequate land resources to carry on successful family-type farming operations.
6. With the assistance of local county Farmers Home Administration supervisors plan a sound farming operation which will provide the family with an adequate level of living, pay farm operating and maintenance costs, and pay debts.
7. Agree to keep records and accounts on the farm and home operations each year during the period of the loan.
8. Agree to operate the farm according to the farm and home plans and to follow recommended farm and home management practices.
9. Agree to spend the major portion of his time farming and to obtain the major portion of his income from farming.
10. When able to obtain adequate credit from other lenders, at reasonable terms, agree to accept such credit and repay the loan from the Farmers Home Administration.

Loan funds may be used to:

1. Purchase essential farm and home equipment and productive livestock.
2. Pay necessary farm operating and family living expenses.
3. Make minor real estate improvements.
4. Refinance debts on livestock, farm equipment and harvested feed, when such action is necessary to assure a sound farming operation.

Terms and repayment policies are:

1. Interest rate is 5 percent on unpaid principal.
2. Total indebtedness for operating loans may not exceed $20,000 principal. Usually credit needs of borrowers can be served with a much smaller amount.
3. Amount borrowed for operating expenses to be repaid from the year's income.
4. Amount borrowed for capital goods scheduled for repayment in annual installments not to exceed 7 years.
5. Amount and time of repayment determined by availability of income for debt payment.
6. Generally no additional operating loans may be made after 7 years continuous indebtedness. However, in hardship cases additional loans may be made for 3 more years.

Security requirements are:

1. A first lien on productive livestock and equipment purchased or refinanced.
2. The best lien obtainable on productive livestock and farm equipment owned.
3. A first lien on crops and assignments on some items of income.
4. A subordination agreement by landlord when needed.

NOTE: Primarily as a part of the rural development program operating loans may also be made to bona fide part-time farmers to make needed improvements in their living conditions and economic situations. The applicant must be an established farmer carrying on substantial farming operations and spending most of his time farming. He must also have dependable income from other sources.

## Farm Ownership Loans

These loans assist farm families to become successfully established on adequate family-type farms. Farm ownership loans are made either from funds furnished by private lenders and insured by the Farmers Home Administration or from funds borrowed from the U. S. Treasury as authorized by Congress. During fiscal 1957 insured loans totaled $29,772,000 and direct loans $46,328,000.

To be eligible an applicant must:

1. Be unable to obtain adequate credit from other sources at reasonable terms.
2. Be a citizen of the United States and of legal age.
3. Have good character.
4. Have the necessary experience and training and managerial ability to operate a family-type farm.
5. Unless a veteran, obtain or recently have obtained a substantial portion of his income from farming operations.
6. With the assistance of local county Farmers Home Administration supervisor plan a sound farming operation which will provide the family with an adequate level of living, pay farm operating and maintenance costs, and pay debts.
7. Agree to keep records and accounts on the farm and home operations each year during the period of the loan.

8. Agree to operate the farm according to the farm and home plan and to follow recommended farm and home management practices.
9. Agree to spend the major portion of his time farming and to obtain the major portion of his income from farming.
10. When able to obtain adequate credit from other lenders, at reasonable terms, agree to accept such credit and repay the balance of the loan from the Farmers Home Administration.

Loan funds may be used to:

1. Buy an adequate family-type farm or buy land to enlarge an undersized farm.
2. Provide necessary water, and water facilities.
3. Provide basic land and soil improvements.
4. Construct, repair, and improve buildings necessary for successful operation of a family-type farm.
5. Refinance existing debts if the applicant's total debts do not exceed the value of his real estate and chattels and if the applicant will be able to place his operations on a sound basis if his debts are refinanced on more favorable terms and conditions.
6. Pay authorized fees.

Loan terms and repayment policies are:

1. On insured loans, 4 percent interest and 1 percent loan insurance and administrative charge on the unpaid principal.
2. On direct loans, 4½ percent interest on the unpaid principal.
3. Payments are due on January 1 each year. Borrowers are encouraged to build reserve by paying ahead of schedule.
4. Loans are amortized over periods up to 40 years.

Special requirements are:

1. Loans for farm purchase cannot exceed the county average value of efficient family-type farms.
2. Loans cannot exceed the fair and reasonable value of the farm established by the Farmers Home Administration county committee.
3. Insured loans are limited to either 90 percent of the county committee's valuation of the farm, or 90 percent of the total cost of acquiring and developing the farm, whichever is less.

Security requirements are:

1. A first or second real estate mortgage.
2. Buildings insured against loss by fire or other casualties.
3. Real estate taxes must be paid.

NOTE: Primarily as a part of the rural development program farm ownership loans also may be made to owners of units that are smaller than family-type farms to improve the living and operating conditions on such units and to refinance debts incurred for agricultural purposes. The applicant must be an established farmer carrying on substantial farming operations and spending most of his time farming. He must also have dependable income from other sources.

## Soil and Water Conservation Loans

These loans are made principally to carry out soil conservation measures and to develop irrigation and farmstead water supply systems. They are made as insured or direct loans. During fiscal 1957 insured loans totaled $3,926,000 and direct loans $5,474,000.

To be eligible an applicant must:

1. Be unable to obtain adequate credit from other sources at reasonable terms.
2. Be a citizen of the United States and of legal age.
3. Have good character.
4. Be an owner or operator of a farm.
5. Plan to improve a farm which is large enough to produce a substantial part of the operator's annual cash income.
6. Nonprofit organizations, such as incorporated water users' associations, are eligible for loans when they are unable to obtain credit elsewhere and meet certain other conditions.
7. When able to obtain adequate credit from other lenders, at reasonable terms, agree to accept such credit and repay the balance of the loan from the Farmers Home Administration.

Loan funds may be used to:

1. Carry out approved soil conservation practices.
2. Develop irrigation systems.
3. Develop and improve permanent pastures.
4. Develop drainage systems.
5. Pay authorized fees.

Loan terms and repayment policies are:

1. For insured loans, 4 percent interest and 1 percent loan insurance and administrative charge on the unpaid principal balance.
2. For direct loans, 4½ percent interest on the unpaid principal balance.
3. Loans are repayable in 1 to 20 years, depending on ability to pay and security given.
4. Repayments are scheduled in equal annual installments except that, when necessary, the first or first two installments may be scheduled for interest only.
5. An individual's total indebtedness for a SW loan cannot exceed $25,000. An association's total indebtedness cannot exceed $250,000.

Special requirements are:

1. Loans are made only when the use and disposal of water comply with Federal, State, and local laws and regulations.
2. Supervisory assistance is given to the extent necessary to assure repayment of the loan, establish the facility's improvement, and maintain the security property.
3. Practices financed only when in accordance with Extension Service and Soil Conservation Service recommendations.
4. Each applicant is responsible for obtaining plans, specifications, and cost estimate for the planned improvement and facility.
5. When secured by real estate, property insurance is required.

Security requirements are:

1. A short-term loan is secured by either a real estate mortage, chattel mortgage, or both.
2. A long-term loan is secured by a real estate mortgage.

## Farm Housing Loans

These loans are used to build and repair farmhouses and other essential farm buildings. They are made from funds appropriated by Congress. In fiscal 1957 the volume of farm housing loans totalled $21,300,000.

To be eligible an applicant must:

1. Be unable to obtain adequate credit from other sources at reasonable terms.
2. Be a citizen of the United States and of legal age.
3. Have good character.
4. Own a farm that is in production, and plan to produce at least $400 worth of commodities for sale or home use based on 1944 prices.
5. When able to obtain adequate credit from other lenders, at reasonable terms, agree to accept such credit and repay the balance of the loan from the Farmers Home Administration.

Loan funds may be used to:

1. Construct or repair farmhouses and other essential farm buildings.
2. Modernize farm homes by adding bathrooms, utility rooms, improving kitchens, and otherwise improve homes and farm service buildings.
3. Provide water supply and related facilities for dwellings and other farm buildings.
4. Pay authorized fees.

Loans may not be made to:

1. Pay debts incurred prior to the closing of the loan.

Loan terms and repayment policies are:

1. Interest rate 4 percent on unpaid principal.
2. Payments amortized over periods up to 33 years.

Special requirements are:

1. Applicants are expected to furnish detailed building plans. The Farmers Home Administration has a limited number of plans available that applicants may use if they choose to do so.
2. The Farmers Home Administration inspects construction as it progresses to assist the borrower in obtaining construction that meets generally accepted standards of soundness.

Security requirements are:

1. Adequate real estate security on the farm being improved and on other real estate when necessary.

## Emergency Loans

These loans are used to assist farmers in emergency areas to continue farming. They are made from a revolving fund established by Congress. During fiscal 1957 $66,200,000 was loaned.

To be eligible an applicant must:

1. Be an established farmer in a designated emergency area.
2. Be engaged primarily in farming or livestock production.
3. Be unable temporarily to obtain needed credit from banks or other responsible sources.
4. Have good character.
5. Have the resources, experience, and managerial ability deemed necessary for the success of the operation.
6. If applying for a production emergency loan, have suffered substantial loss due to the emergency.

7. Have reasonable prospects of repayment and return to private credit.

Loan funds may be used in designated areas to:

1. Purchase feed, fuel, seed, fertilizer, and farm and home supplies.
2. Replace livestock lost in the disaster.
3. Replace or repair farm and home equipment.
4. Replace or repair farm buildings, fences, drainage or irrigation systems damaged as a result of the emergency.
5. Level land and remove debris resulting from the emergency.
6. Pay current taxes on real property when necessary.
7. Pay water charges necessary to the operation.
8. Make minor repairs or improvements to farm water supplies.
9. Pay labor, machinery hire and other essential expenses.

Loans may not be made to:

1. Refinance existing debts.
2. Pay cash rent.
3. Enable borrowers to expand their normal operations.

Loan terms and repayment plans are:

1. Interest rate 3 percent on unpaid balance.
2. Loans for production of crops repaid as crops are sold.
3. Loans for feed repaid as livestock or livestock products are sold.
4. Loans for replacement of equipment, building repairs, or similar purposes, may be scheduled over a longer period.

Security requirements are:

1. A first lien on crops produced with loan funds.
2. A first lien on livestock and equipment purchased with loan funds.
3. The best lien obtainable on all other crops.
4. When necessary, the best lien obtainable on livestock and equipment owned when loan was made.
5. When necessary, the best lien obtainable on real estate.
6. Agreement for division of income when livestock is subject to a prior lien.

## Insured Loans

These loans are made by the Farmers Home Administration in the farm ownership and soil and water conservation loan programs, from funds provided by private lenders and insured by the Government. Applications for insured loans are processed just the same as those made from funds borrowed from the U. S. Treasury. In the farm ownership program the insured loans are made in amounts up to 90 percent of the value of the farm. So far as the borrower is concerned, the fact that a 10 percent equity is required in the case of an insured farm ownership loan, but not in the case of a direct loan, is the only difference between the two types of credit.

Insured loans made under the soil and water conservation program can be for the full amount of the cost of the improvements to be made with the loan.

The interest rate on insured loans is 4 percent and in addition there is a 1 percent charge for administrative expenses and insurance. The interest rate on loans from appropriated funds is 4½ percent. Otherwise, the terms are the same.

Mortgages on insured loans are given to the Farmers Home Administration but the note is made payable to the lender and endorsed by Farmers Home Administration to fully guarantee payment to the lender. Farmers Home Administration does all servicing on these loans and sends payments to the lender when they are due.

## PROGRAM RESULTS

A brief summary of the loans made and insured by the Farmers Home Administration and predecessor agencies and the repayments on these loans as of June 30, 1957 is as follows:

| | |
|---|---|
| Total of all loans made | $4, 148, 000, 000 |
| Collections of principal | 2, 961, 000, 000 |
| Interest collected | 408, 000, 000 |
| Principal outstanding | 989, 000, 000 |

Following are some details on loans and repayments and progress made by borrowers.

### Rural Rehabilitation Loans

These loans were made by predecessor agencies during the period 1935 to 1946. The unpaid balances of the loans were transferred to the Farmers Home Administration for servicing.

| | |
|---|---|
| Total amount of loans made | $1, 005, 000, 000 |
| Repayments on principal | 890, 000, 000 |
| Payment of interest | 125, 000, 000 |
| Percent of matured principal collected (percent) | 88. 6 |
| Amount of principal charged off | 93, 000, 000 |
| Percent of principal charged off (percent) | 9. 2 |
| Amount of principal outstanding | 20, 000, 000 |

### Operating Loans

The following figures are for the period November 1, 1946 through June 30, 1957.

| | |
|---|---|
| Total amount of loans made | $1, 194, 000, 000 |
| Total payment on principal | 826, 000, 000 |
| Percent of matured principal collected (percent) | 93. 5 |
| Interest collected | 82, 000, 000 |
| Percent of principal charged off (percent) | 0. 5 |

Progress made by a group (approximately 14,000) of operating loan borrowers who recently paid their loans in full is indicated by the following:

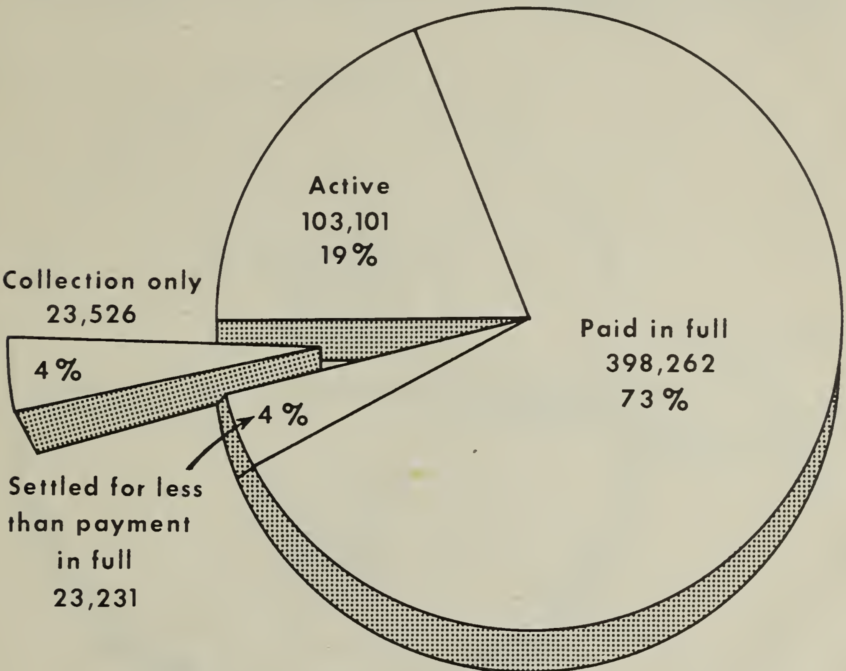
| | |
|---|---|
| Average number of years required to pay loans in full | 4. 3 |
| Average net worth before loan was made | $7, 026 |
| Average net worth when loan was paid in full | 9, 433 |
| Average annual farm income before loan was made | 3, 364 |
| Average annual farm income when loan was paid in full | 4, 912 |

From November 1, 1946, to June 30, 1957, the Farmers Home Administration made operating loans to 548,120 farmers.

Borrowers repay their loans in full according to their ability to pay, and graduate to other credit sources. A few borrowers fail to pay their

loans in full when due, and are reclassified to the collection only category. They are serviced for collection in full, or settle for less than payment in full, each according to his ability to repay.

Number and percentage of operating loan borrowers in the various categories as of June 30, 1957:




**Farm Ownership Loans**

The following figures are for the fiscal years 1938 through 1957 and include direct and insured loans.

| | |
|---|---|
| Total amount of direct and insured loans made | $683, 000, 000 |
| Total payment on principal | 327, 000, 000 |
| Interest collected | 105, 000, 000 |
| Percent of principal charged off (percent) | 0. 3 |
| Principal repayments to maturities on loans still outstanding (percent) | 106 |

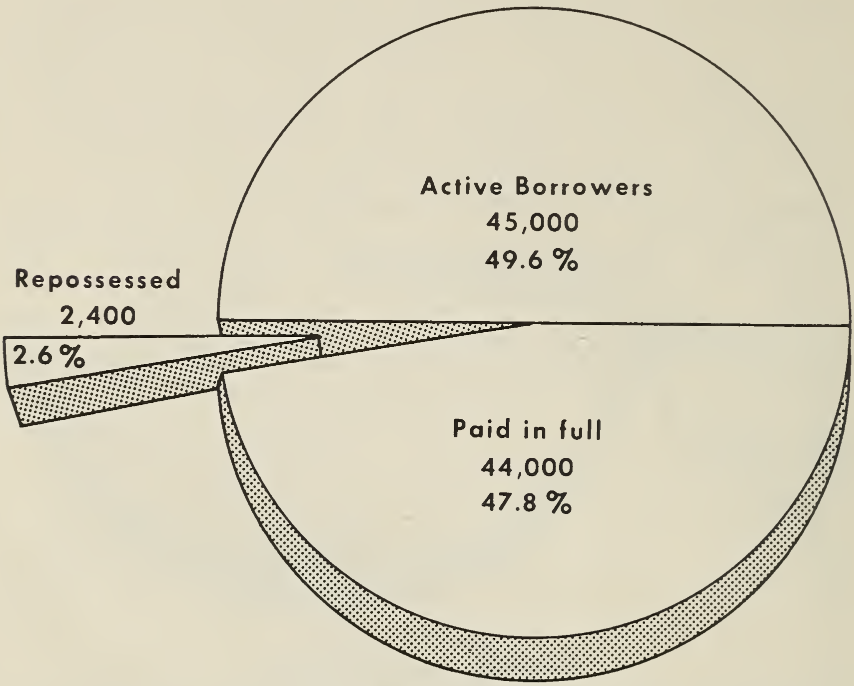
A study was made of a group of the borrowers (2,629) who had obtained loans in 1951. Following are some basic data from this study:

| | |
|---|---|
| Average annual farm income before loan was made | $3, 652 |
| Average annual farm income in 1956 | 6, 073 |
| Average net worth before loan was made | 7, 765 |
| Average net worth in 1956 | 10, 491 |
| Average value of livestock and equipment owned before loan was made | 5, 091 |
| Average value of livestock and equipment in 1956 | 6, 742 |

Cumulative from the beginning of the program in 1938 through fiscal 1957, there have been approximately 91,000 farm ownership loan borrowers.

It has always been the policy to encourage farmers to graduate to other credit when they can qualify for it. The average time required for those who have paid their farm ownership loans in full to the Farmers Home Administration has been about 10 years, even though the loans were scheduled for repayment in 40 years.

Number and percentage of farm ownership borrowers in different categories as of June 30, 1957:




## Credit Counsel

There are many farm families, besides those who obtain loans from the Agency, who obtain credit advice from the county supervisors of the Farmers Home Administration.

These families are interested in knowing what services are available from the Farmers Home Administration. Frequently they are not aware of the fact that they are able to qualify for credit from other sources. Sometimes they need to make major adjustments in their credit plans before they become eligible for private or cooperative credit.

County supervisors discuss with these families the most economical methods of financing farm adjustments; the returns that can be expected from funds invested in improved farming operations; the current costs of foundation livestock, equipment, building construction and repairs; and all the similar items that are involved in planning the wise use of credit.

Usually after these discussions, the farm families are able to make better use of the private and cooperative funds available to them. In many cases the county supervisors' advice enables farm families to qualify for credit they had previously been unable to obtain.